

No. 7/ 8 /DPNP

Jakarta, March 31, 2005

CIRCULAR LETTER

To

ALL COMMERCIAL BANKS

IN INDONESIA

Concerning: Rating Agencies and Ratings Acknowledged by Bank Indonesia

Article 12 of Bank Indonesia Regulation Number 5/12/PBI/2003 dated July 17, 2003 concerning The Minimum Capital Requirement for Commercial Banks Taking Account of Market Risk, Chapter II point 1 letter a of Bank Indonesia Circular Letter Number 5/23/DPNP Dated September 29, 2003 concerning Guideline for Calculating Minimum Capital Requirement for Commercial Banks Taking Account of Market Risk and Guideline for Calculating Commercial Banks Net Open Position, Articles 14 and 15 of Bank Indonesia Regulation Number 7/2/PBI/2005 dated January 20, 2005 concerning Assets Quality Rating for Commercial Banks, and Chapter III of Bank Indonesia Circular Letter Number 7/3/DPNP dated January 31, 2005 concerning Assets Quality Rating for Commercial Banks stipulate rating agencies and ratings that could be used to determine the Qualifying category and determine the quality of Bank's placement in the form of securities.

In connection with the aforementioned, it is necessary to further regulate the eligibility criteria for rating agencies, updating of rating agency list, acknowledgment of

rating agencies and minimum ratings, as well as other relevant issues in a Bank Indonesia Circular Letter, with the following principles:

I. GENERAL

1. Rating agency is one of the most important element in the operations of financial market whose role is increasing in line with the rapid development of the global financial market.
2. The role of rating agencies in supporting the operations of a financial system, among others, is to endorse financial market transparency and to promote an efficient investment that could support the acceleration of economic growth.
3. Rating agency that could be considered as a rating agency acknowledged by Bank Indonesia is a rating agency that complies with eligibility criteria.
4. The minimum rating acknowledged by Bank Indonesia is a certain investment grade stipulated by Bank Indonesia.
5. Bank Indonesia shall perform the updating of list of acknowledged rating agencies and minimum rating based on the result of evaluation and supervision of rating agencies concerned.

II. RATING AGENCY ELIGIBILITY CRITERIA

1. GENERAL PRINCIPLES

The general principles in determining eligibility criteria of rating agencies, among others:

- a. The stipulated eligibility criteria must not hinder the development of rating industry but shall stimulate a sound competition which subsequently could create market discipline.
- b. The eligibility criteria is for the purpose of encouraging rating agencies in creating credible ratings.
- c. The eligibility criteria is stipulated in accordance with international standards and practices in order to support consistencies among regulators, particularly in conducting evaluation and acknowledgement of rating agencies of regional and international scale.
- d. A few international standards, principles and ethical codes which become a reference in stipulating the eligibility criteria, among others, are the criteria stipulated in the *International Convergence of Capital Measurement and Capital Standards (A Revised Framework)* by *Basel Committee on Banking Supervision of Bank for International Settlements*.

2. ELIGIBILITY CRITERIA

The criteria which become a reference in conducting evaluation of rating agencies are as follows:

- a. Independence

This criteria is used to evaluate the level of independence of a rating agency from all interests, e.g. economic interest, social and political interests, both direct and indirect, in determining the rating results.

b. Objectivity

This criteria is used to evaluate the level of objectivity and effectiveness of the rating process, methodology used and developed, suitability and consistency of the rating criteria in each process of evaluation and stipulation of a rating for a company (*borrower*) or for an issuance of securities.

c. International Public Access (Transparency)

This criteria is used to evaluate the transparency of a rating agency of all information related to rating results, including assumptions and background of the issuance of rating results to the public.

d. Disclosures

This criteria is used to evaluate the disclosure of all matters regarding a rating agency to enable the public and regulators to perform an evaluation on the independence, objectivity, capability, operations of the rating agency, as well as its compliance with prevailing regulations.

e. Resources

This criteria is used to evaluate the capability of a rating agency in managing its rating service business in terms of human resources and financial resources which enable the rating agency to operate independently and professionally.

f. Credibility

This criteria is used to evaluate the market acknowledgement and acceptability regarding the existence of the rating agency as a credible rating service provider.

III. UPDATING OF RATING AGENCY LIST

1. Bank Indonesia shall update the list of acknowledged rating agencies and minimum ratings based on the result of the evaluation and monitoring on its compliance with the stipulated eligibility criteria which is done periodically or as needed.
2. For the purpose of the supervision as referred to in point 1 above, Bank Indonesia may request a rating agency to submit an audited annual financial statement. In addition, Bank Indonesia may request for a written information with regard to any material changes, among others, changes in organization or management structure, formation of rating analysts, rating procedures, as well as financial performance that could affect the capability of a rating agency in issuing credible ratings or other information as needed.
3. A rating agency could be removed from the list of acknowledged rating agencies or the minimum rating could be increased due to the following conditions:
 - a. A rating agency does not comply with part or all of the eligibility criteria;
 - b. A rating agency deliberately provides misleading information;
 - c. A rating agency has been proven or alleged to be involved in a tort, e.g., in

creating an insider trading, disclosing a confidential or non-public information regarding a condition of a rated company to other parties without prior consent, performing negotiation for a higher rating than the actual condition, and performing an unsound competition, e.g., by offering a higher rating to a client of another rating agency; and/or

d. A rating agency has committed a violation against relevant rules and regulations.

4. Based on the evaluation on the compliance with rating agency registration criteria for the purpose of rating Bank owned securities, Bank Indonesia may include the rating agency concerned on the list of acknowledged rating agencies.

IV. ACKNOWLEDGED RATING AGENCY AND MINIMUM RATING

1. Investment Rating.

a. Article 12 of Bank Indonesia Regulation Number 5/12/PBI/2003 dated July 17, 2003 concerning Minimum Capital Requirement for Commercial Banks Taking Account of Market Risk and Chapter II point 1 letter a of Bank Indonesia Circular Letter Number 5/23/DPNP dated September 29, 2003 concerning Guideline for Calculating Minimum Capital Requirement for Commercial Banks Taking Account of Market Risk and Guideline for Calculating Commercial Banks Net Open Position, among others, set forth rating agencies and investment grades that could be used to categorize securities owned by Banks in

the Qualifying category.

- b. Article 14 paragraph (2) of Bank Indonesia Regulation Number 7/2/PBI/2005 dated January 20, 2005 concerning Assets Quality Rating for Commercial Banks and Chapter III of Bank Indonesia Circular Letter Number 7/3/DPNP dated January 31, 2005 concerning Assets Quality Rating for Commercial Banks, among others, provide that the quality of:

- 1) Securities traded inactively in an Indonesian stock exchange and or securities that do not have transparent market value information; or
- 2) Securities acknowledged based on gained price,

is categorized as Current insofar the securities concerned have investment grade, coupons or similar are paid promptly in the proper amount according to contract, and the securities concerned have not reached matured.

- c. In connection with the implementation of the aforementioned provisions, rating agencies and minimum ratings acknowledged by Bank Indonesia as investment grade shall be as provided in Attachment I.

- 2. Furthermore, referring to Article 14 paragraph (2) letter b and Article 15 of Bank Indonesia Regulation Number 7/2/PBI/2005 dated January 20, 2005 concerning Assets Quality Rating for Commercial Banks, securities will be categorized as Substandard if they have ratings of no less than 1 (one) level below the investment grade, there has been no delay in coupon

payments or other similar obligations and they have not matured yet. Ratings of no less than 1 (one) level below the investment grade acknowledged by Bank Indonesia shall be as provided on Attachment II.

3. For securities acknowledged based on market value, in accordance with Article 14 paragraph (1) of Bank Indonesia Regulation Number 7/2/PBI/2005 dated January 20, 2005 concerning Assets Quality Rating for Commercial Banks, one of the criteria to categorize securities in Current quality is the level of trading activity of securities traded at a stock exchange in Indonesia, including if the securities are traded over the counter and registered at a stock exchange, insofar the volume of the securities trading is significant and is within arm's length within the last 10 (ten) working days prior to the reporting date.

V. OTHERS

1. Application for the registration of a rating agency as referred to in Chapter III point 4 above must be submitted in writing to Bank Indonesia att. Directorate of Banking Research and Regulation, Jl. M.H. Thamrin No. 2, Jakarta 10110.
2. The utilization of services by rating agencies acknowledged by Bank Indonesia by a Bank shall be the responsibility of the Bank concerned.

VI. CLOSING PROVISIONS

With the issuance of this Circular Letter, therefore:

- a. Attachment 2 of Bank Indonesia Circular Letter Number 5/23/DPNP dated September 29, 2003 concerning Guideline for Calculating Minimum Capital Requirement for Commercial Banks Taking Account of Market Risk and Guideline for Calculating Commercial Banks Net Open Position; and
 - b. Attachment 2 of Bank Indonesia Circular Letter Number 7/3/DPNP dated January 31, 2005 concerning Assets Quality Rating for Commercial Banks,
- are revoked and declared inapplicable.

Provisions in this Circular letter shall come into force as of March 31, 2005.

For the public to be informed, it is ordered that this Circular letter be promulgated by placing it in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

MAMAN H. SOMANTRI
DEPUTY GOVERNOR

Attachment I of Bank Indonesia Circular Letter No. 7/ 8 / DPNP dated March 31, 2005

**Rating agencies and Investment Grades
For The Purpose of Categorizing Securities Owned by Bank
In the Qualifying category and Considered Current**

Rating agency	Minimum Rating	
	Short-term Securities	Middle and Long- term Securities
Moody's	P-3	Baa3
Standard and Poor's	A-3	BBB-
Fitch Ratings	F3	BBB-
Pemeringkat Efek Indonesia (Pefindo)	^{id} A4	^{id} BBB-
Kasnic Credit Rating Indonesia	K-4	BBB-

Attachment II of Bank Indonesia Circular Letter No. 7/ 8 / DPNP dated March 31, 2005

Rating agencies and Investment Grades
For The Purpose of Categorizing Securities Owned by Bank
In the Qualifying category and Considered Substandard

Rating agency	Minimum Rating	
	Short-term Securities	Middle and Long-term Securities
Moody's	NP	Ba1
Standard and Poor's	B	BB+
Fitch Ratings	B	BB+
Pemeringkat Efek Indonesia (Pefindo)	_{id} B	_{id} BB+
Kasnic Credit Rating Indonesia	K-5	BB+